

School District of the
City of Muskegon Heights

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

School District of the City of Muskegon Heights

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Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

This section of Muskegon Heights Public Schools' annual report represents an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. Please review in conjunction with the financial statements and notes to the financial statements to enhance an understanding of the district's financial performance.

The Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements adopted this reporting model – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Overview of the Financial Statements

This annual report consists of four parts: (1) management's discussion and analysis, (2) the basic financial statements, (3) required supplementary information, and (4) statistical data, unaudited. The financial statements include notes that explain information in the statements by providing detailed data. These statements are followed by a section of required supplementary information that further explains and supports the financial statements, utilizing a comparison to the district's budget for the year. Additionally, the basic financial statements also include two kinds of statements that present different views of the district.

District-wide Financial Statements

The District-wide financial statements are full accrual basis statements that provide information about the district's **overall** financial status. They are used to help determine whether or not the District is better off, or worse off, as the result of the year's activities. The **Statement of Net Assets** reports all of the district's assets and liabilities, both short-term and long-term, whether they are "currently available" or not. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues and expenses are accounted for in the **Statement of Activities**, regardless of when cash is received or paid.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

The two district-wide statements report the district's **net assets** and how they have changed. Net assets – the difference between the district's assets and liabilities – is one way to measure the district's financial position.

- Over time, increases or decreases in net assets are an indicator of whether the district's financial position is improving or deteriorating.
- To assess the district's overall health, you need to consider additional non-financial factors such as changes in the district's property tax base, the quality of the education provided, and the condition of the district's buildings.

In district-wide statements, the district's activities are classified as **governmental activities**. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation, and administration. Property taxes, state aid, and state and federal grants finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the district, while reporting the district's operations in more detail than the district-wide statements. The fund level statements are reported on a **modified accrual basis**. Only those assets that are "**measurable**" and "**currently available**" are reported. Liabilities are recognized to the extent that they are paid with current financial resources.

Fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the district's major instructional and instructional support activities are reported in the **General Fund**. Additional activities are reported in their relevant funds including: **Food Service**, **Athletics**, **Debt Service**, **Capital Projects**, and **Fiduciary Funds**.

In fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Financial Analysis of the District as a Whole

The net assets of the district at June 30, 2007 amounted to \$1.16 million. Figure A-1 shows a condensed breakdown of the net assets. The decrease in total assets is the result of lower cash balances due to capital project expenditures and debt payments, and lower receivables at year-end due to lower special education transportation costs compared to the previous year. Also, depreciation and amortization expense exceeded fixed asset additions. Total liabilities decreased due to the timing payroll and related benefits payments.

Figure A-1
Condensed Statement of Net Assets

	Governmental Activities	
	<u>June 30, 2007</u>	<u>June 30, 2006</u> <u>(as restated)</u>
Current Assets	\$ 6,692,437	\$ 7,449,725
Capital Assets, net	26,121,478	26,913,274
Other Non Current Assets	973,786	1,036,997
Total Assets	<u>33,787,701</u>	<u>35,399,996</u>
Current Liabilities	7,380,071	7,698,510
Non Current Liabilities	25,245,776	26,287,960
Total Liabilities	<u>32,625,847</u>	<u>33,986,470</u>
Net Assets		
Invested in Capital Assets, net of related debt	4,515,191	4,558,298
Restricted for:		
Debt Service	14,041	310,196
Unrestricted	<u>(3,367,378)</u>	<u>(3,454,968)</u>
Total Net Assets	<u>\$ 1,161,854</u>	<u>\$ 1,413,526</u>

The largest portion of the District's net assets reflects investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Muskegon Heights Public Schools

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

The net assets of the District decreased by \$250 thousand during the 2006/07 year. Figure A-2 shows the breakdown of this change. The Statement of Activities presented later in the government-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was \$26.2 million.

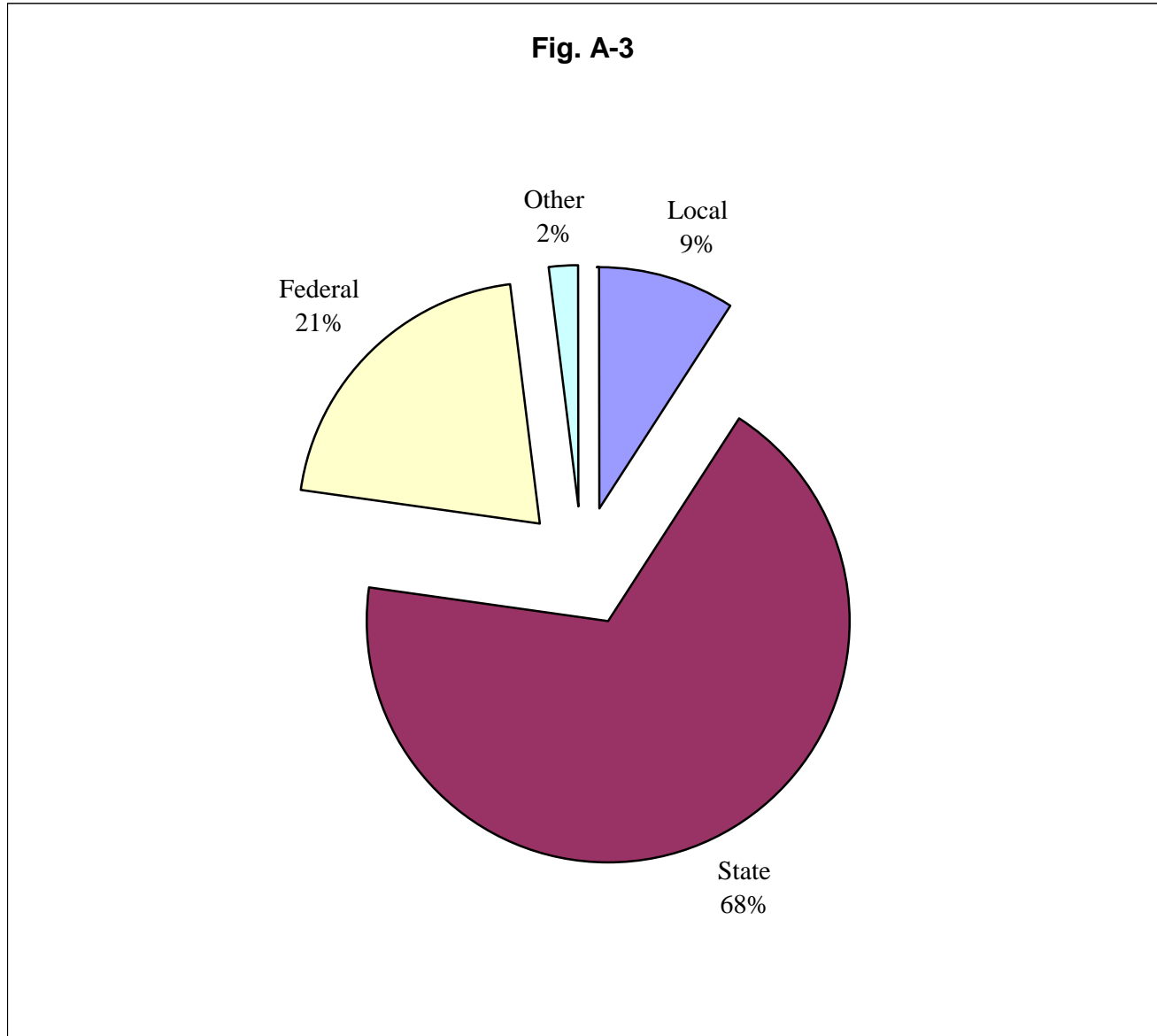
Charges for services include amounts received for Special Education transportation and other receipts from those who benefited from the food service, athletic and community service programs. In 2006/07, the district experienced a decrease in revenue from these charges due to lower program participation. Operating grants and contributions of \$9.7 million were for programs paid for by other governments and organizations. Funding for these programs was reduced in 2006/07.

Instructional expenses for 2006/07 decreased due to a reduction in instructional staffing. The district eliminated 22 positions in October 2006. Health insurance premiums were lower as the result of changes in health insurance providers being changed for two bargaining units. Overall, expenses were reduced to aid in the reduction of the District's fund deficit.

Figure A-2		
Statement of Net Assets from Operating Results		
	Governmental Activities	
For the Period Ending: June 30,	2007	2006 (as restated)
Revenues		
Program Revenues		
Charges for Services	\$ 555,716	\$ 819,320
Operating Grants and contributions	9,735,793	10,991,187
General Revenues		
Property taxes	3,159,240	3,207,475
Unrestricted grants and contributions	13,601,576	13,390,690
Other	119,845	156,084
Total revenues	27,172,170	28,564,756
Expenses		
Instruction	12,143,708	14,087,862
Support services	10,409,963	10,961,158
Community services	1,003,238	1,158,930
Food services	1,156,590	1,298,859
Athletics	314,734	333,391
Interest on long-term debt	1,179,993	1,248,645
Total expenses	26,208,226	29,088,845
Other changes		
Depreciation and interdistrict transfers	(1,215,616)	(1,162,780)
Increase (decrease) in net assets	(251,672)	(1,686,869)
Beginning net assets (as restated)	1,413,526	3,100,395
Ending net assets	\$ 1,161,854	\$ 1,413,526

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

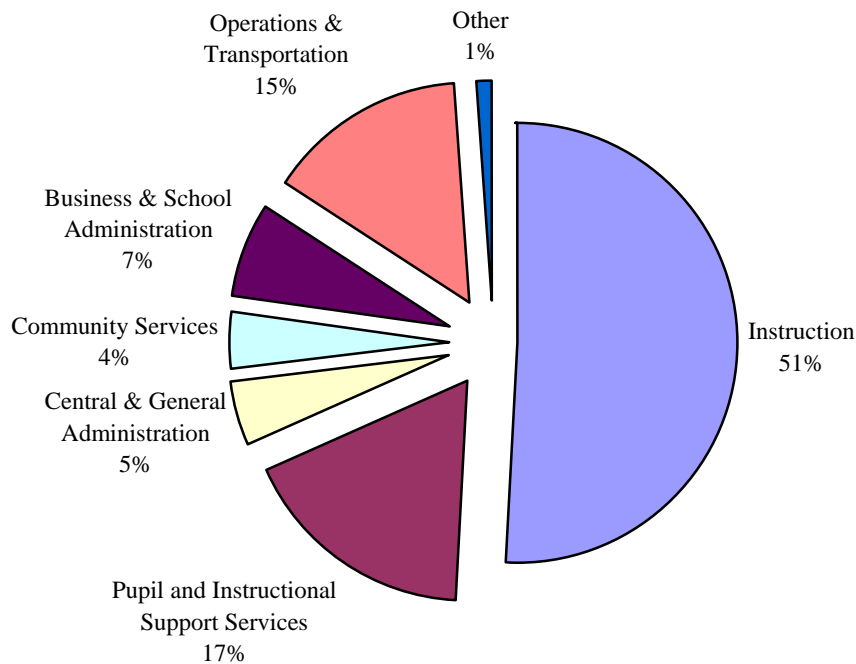
A substantial portion (68%) of the District's revenue is received from State sources. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. Figure A-3 depicts the breakdown of the sources of revenue for the District.



Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

As Figure A-4 depicts, 68% of the District's resources are spent on instruction and pupil support services. Another 12% is spent on administrative and business services necessary to efficiently operate the District, while 15% is spent for building operation and maintenance, including utilities, custodial services and transportation. The final 5% is spent on interest, community, and other support services.

Figure A-4
Expenditures for Fiscal Year 2006/07



Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well. The General Fund fund balance increased by \$129,026 during the 2006/07 fiscal year, resulting in fund deficit of \$771,379 at year-end. The primary operational reasons for the deficit reduction are as follows:

Factors Impacting Operations

Staffing Reduction - The District reduced 22 teacher positions in October 2006. The business office staff was also reduced by one position.

Health Insurance premium decreases – During FY 2007, the CMT and Clerical unions changed their health benefits carrier from MESSA to Priority Health, resulting in a savings for the district. The only remaining union covered by MESSA insurance is the Teachers Union. The district is currently in negotiations with the Teachers Union regarding health insurance.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget quarterly during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Revenues – There was a \$750,000 (3%) decrease in the total General Fund revenue budget from the beginning to the end of the year. The major changes in funding sources are as follows:

- The *local source* revenue budget increased by \$9,500 due to miscellaneous program activities.
- The *state source* revenue budget decreased by \$950,000. The decrease was due to a reduction in student enrollment.
- The *federal source* revenue budget increased by \$188,000 primarily due to the inclusion of the Title I Carryover funds available from the 2005/06 fiscal year.

Expenditures – The budgetary changes by functional category are as follows:

- The budget for *instructional services* decreased by \$957,000 due primarily to the reduction of 22 teaching positions in October of 2006.
- The budget for *support services* instructional staff had a net increase of \$192,000. This increase was due to the recognition of additional No Child Left Behind legislation constraints.
- The budget for *business services* increased by \$94,000 due to the recognition of additional State Aid Anticipation Note interest expense.
- The budget for *operations and maintenance* decreased by \$68,000 due to shifting various full-time employees to part-time employees.
- The budget for *transportation services* decreased by \$105,000 due to a reduction in bus aide staffing.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Amended Budget v. Actual Results

Revenues

- The ***local source*** revenues increased slightly due to the collection of more delinquent taxes than anticipated by \$140,000. Special education transportation was \$163,000 lower than expected.
- The ***state source*** revenues decreased due to deferring At-Risk funding not fully expended. State aid budget was \$300,000 lower than actual.
- The ***federal source*** revenues decreased due to the Title I, Title II-A, and IDEA grants not being fully expended by year-end. The remaining amounts will carryover to the 2007/08 fiscal year. Additional revenues of \$418,000 were deferred due to the 60-day rule.
- ***Instruction*** was better than anticipated due the reduction in staffing and the related benefits.

Expenditures

- The ***basic programs*** expenditures lower than expected by \$700,000 due to the reduction of instructional staffing, lower than expected retiree hospitalization costs, and lower supplies and materials spending.
- The ***added needs*** expenditures were lower than expected by \$270,000 due to lower than expected staffing costs and by \$120,000 due to lower than expected Special Education enrollment (i.e. tuition and Special Education Billback).
- The ***adult and continuing education*** expenditures were higher by \$49,000 due to the addition of 1 instructional staff member not included in the final budget.
- The ***support services*** expenditures were higher than expected by \$250,000 due to the additional spending of Title I school improvement funds for staff training and the addition of an Educator on Loan funded by Reading First.
- The ***pupil transportation expenditures*** were lower than expected by \$149,000 due to lower than expected Special Education enrollment.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Capital Assets and Debt Administration

Capital Assets – At June 30, 2007, the District had over \$26.2 million in net capital assets, including land, buildings, furniture and equipment as shown below. The District began projects to replace the roofs on two elementary buildings, added security systems to two buildings, purchased a new play system and made parking lot improvements. The depreciation expensed charged to the District was \$1.1 million.

	<u>2007</u>	<u>2006</u>
Land	\$ 1,475,734	\$ 1,475,734
Construction in progress	172,241	167,187
Land Improvements	176,256	167,584
Buildings and Improvements	22,870,876	23,400,955
Equipment	1,347,826	1,594,361
Vehicles	<u>78,545</u>	<u>107,453</u>
Total	\$ <u>26,121,478</u>	\$ <u>26,913,274</u>

More detailed information about capital assets can be found in Note E of these financial statements.

Debt Administration – At June 30, 2007, the District had almost \$26.2 million in general obligation bonds and other long-term debt outstanding as shown below. During the year, the District began repayment on its School Bond Loan Fund.

	<u>2007</u>	<u>2006 (as restated)</u>
1999 Building General Obligation Bonds	\$ 1,205,000	\$ 1,760,000
2006 Building General Obligation Bonds	21,590,590	21,570,465
Durant Bond Obligations	491,742	491,742
School Bond Loan Fund	2,430,343	2,556,947
Early Retirement Incentives and Compensated Absences	313,183	339,261
Capital Leases and other	<u>154,897</u>	<u>227,844</u>
Total	\$ <u>26,185,755</u>	\$ <u>26,946,259</u>

More detailed information about long-term debt can be found in Note J of these financial statements.

Muskegon Heights Public Schools
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Currently Known Facts, Decisions, and Conditions
Affecting the 2007/2008 Fiscal Year

- The State of Michigan currently begins their State Aid payment cycle in mid-October, which creates a window of time in which no cash is coming in, thus causing the District to borrow \$2,700,000 in August 2007, which will mature August 2008.
- The state retirement rate has decreased to 16.72% from 17.74% in the prior year.
- The district is experiencing declining enrollment.
- There has been an increase in the State of Michigan Per Pupil funding amount
- The district is currently looking into an energy efficiency program that will effectively reduce future energy costs.

Requests for Information

This financial report is designed to provide the district's citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Mr. Dana M. Bryant, Superintendent, Muskegon Heights Public Schools, 2603 Leahy Street, Muskegon Heights, MI 49444, telephone number (231) 830-3221.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 30, 2007

Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights (the School District), as of and for the year ended June 30, 2007, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Muskegon Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District of the City of Muskegon Heights, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated November 30, 2007, on our consideration of the School District of the City of Muskegon Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
November 30, 2007
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The management's discussion and analysis and budgetary comparison information on pages i - x and page 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages 30 - 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Brickley DeLong, PLC

School District of the City of Muskegon Heights
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,558,277
Receivables	394,231
Due from other governmental units	4,699,200
Prepaid expenses	25,688
Inventories	<u>15,041</u>
Total current assets	6,692,437
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	1,647,975
Depreciable	24,473,503
Bond issuance costs, net	396,923
Note and interest receivable	<u>576,863</u>
Total noncurrent assets	<u>27,095,264</u>
Total assets	33,787,701
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	2,700,000
Accounts payable and accrued liabilities	2,888,047
Due to other governmental units	585,008
Deferred revenue	181,916
Bonds and other obligations, due within one year	<u>1,025,100</u>
Total current liabilities	7,380,071
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	25,160,655
Accrued interest	<u>85,121</u>
Total noncurrent liabilities	<u>25,245,776</u>
Total liabilities	<u>32,625,847</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,515,191
Restricted for debt service	14,041
Unrestricted	<u>(3,367,378)</u>
Total net assets	<u><u>\$ 1,161,854</u></u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		Net (Expense)
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	Revenue and Changes in Net Assets
Governmental activities				<u>Governmental activities</u>
Instruction	\$ 12,143,708	\$ 9,598	\$ 4,040,273	\$ (8,093,837)
Support services	10,409,963	393,958	3,606,788	(6,409,217)
Community services	1,003,238	-	996,436	(6,802)
Food services	1,156,590	98,908	1,076,296	18,614
Athletics	314,734	53,252	-	(261,482)
Interest on long-term debt	1,179,993	-	16,000	(1,163,993)
Unallocated depreciation and amortization	<u>1,215,616</u>	<u>-</u>	<u>-</u>	<u>(1,215,616)</u>
Total governmental activities	<u>\$ 27,423,842</u>	<u>\$ 555,716</u>	<u>\$ 9,735,793</u>	(17,132,333)
General revenues				
Property taxes levied for				
General purposes				1,638,110
Debt service				1,521,130
Grants and contributions not restricted to specific programs				13,601,576
Investment earnings				107,494
Miscellaneous				<u>12,351</u>
Total general revenues				<u>16,880,661</u>
Change in net assets				(251,672)
Net assets at July 1, 2006, as restated				<u>1,413,526</u>
Net assets at June 30, 2007				<u>\$ 1,161,854</u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights

BALANCE SHEET

Governmental Funds

June 30, 2007

	General Fund	1999 Building Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 558,746	\$ 995,440	\$ 4,091	\$ 1,558,277
Receivables	387,900	-	6,331	394,231
Due from other governmental units	4,639,539	-	59,661	4,699,200
Due from other funds	251,854	30,538	260,163	542,555
Prepaid expenses	25,688	-	-	25,688
Inventories	1,575	-	13,466	15,041
Total assets	<u>\$ 5,865,302</u>	<u>\$ 1,025,978</u>	<u>\$ 343,712</u>	<u>\$ 7,234,992</u>
LIABILITIES AND FUND BALANCES (DEFICIT)				
Liabilities				
State aid loan	\$ 2,700,000	\$ -	\$ -	\$ 2,700,000
Accounts payable	617,297	78,701	171,297	867,295
Accrued liabilities	1,843,743	-	10,527	1,854,270
Due to other governmental units	585,008	-	-	585,008
Due to other funds	290,701	-	251,854	542,555
Deferred revenue	599,932	-	-	599,932
Total liabilities	6,636,681	78,701	433,678	7,149,060
Fund balances (deficit)				
Reserved				
Inventories and prepaid expenses	27,263	-	13,466	40,729
Debt service	-	-	265,644	265,644
Capital projects	-	947,277	-	947,277
Unreserved				
Undesignated				
General Fund	(798,642)	-	-	(798,642)
School service	-	-	(369,076)	(369,076)
Total fund balances (deficit)	<u>(771,379)</u>	<u>947,277</u>	<u>(89,966)</u>	<u>85,932</u>
Total liabilities and fund balances	<u>\$ 5,865,302</u>	<u>\$ 1,025,978</u>	<u>\$ 343,712</u>	<u>\$ 7,234,992</u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2007

Total fund balance—governmental funds	\$	85,932
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 39,200,094	
Accumulated depreciation	<u>(13,078,616)</u>	26,121,478

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	666,430	
Accumulated amortization	<u>(269,507)</u>	396,923

Other long-term note and interest receivable in governmental activities is not reported in the
governmental funds.

576,863

Accrued interest in governmental activities is not reported in the governmental funds.

(251,603)

Deferred revenue reported on the balance sheet that does not provide current financial
resources is not reported as revenue in the governmental funds.

418,016

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds and notes payable	(25,872,572)	
Compensated absences	(169,183)	
Early retirement incentives	<u>(144,000)</u>	<u>(26,185,755)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 1,161,854

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2007

	General Fund	1999 Building Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 1,638,110	\$ -	\$ 1,521,130	\$ 3,159,240
Investment earnings	45,271	30,033	32,190	107,494
Fees and charges	399,586	-	152,160	551,746
Other	117,207	-	-	117,207
Total local sources	2,200,174	30,033	1,705,480	3,935,687
State sources	16,374,340	-	73,989	16,448,329
Federal sources	5,001,747	-	1,002,307	6,004,054
Total revenues	23,576,261	30,033	2,781,776	26,388,070
EXPENDITURES				
Instruction	12,160,103	-	-	12,160,103
Support services	10,507,738	-	-	10,507,738
Community services	1,003,238	-	-	1,003,238
Food services	-	-	1,156,590	1,156,590
Athletics	-	-	314,734	314,734
Debt service				
Principal	-	-	555,000	555,000
Interest and other charges	-	-	1,277,074	1,277,074
Capital projects	26,252	285,445	-	311,697
Total expenditures	23,697,331	285,445	3,303,398	27,286,174
Excess (deficiency) of revenues over (under) expenditures	(121,070)	(255,412)	(521,622)	(898,104)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	500,096	-	-	500,096
Transfers in	-	-	250,000	250,000
Transfers out	(250,000)	-	-	(250,000)
Total other financing sources (uses)	250,096	-	250,000	500,096
Net change in fund balances	129,026	(255,412)	(271,622)	(398,008)
Fund balances (deficit) at July 1, 2006	(900,405)	1,202,689	181,656	483,940
Fund balances (deficits) at June 30, 2007	\$ (771,379)	\$ 947,277	\$ (89,966)	\$ 85,932

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$	(398,008)
--	----	-----------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,215,616)	
Capital outlay	<u>328,357</u>	(887,259)

Interest income on long-term note receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.	16,000
--	--------

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	268,004
--	---------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets.	(119,860)
--	-----------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	854,286
--	---------

Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(10,913)
---	----------

Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>26,078</u>
--	---------------

Change in net assets of governmental activities	<u><u>\$ (251,672)</u></u>
---	----------------------------

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2007

	Agency funds
	<u> </u>
ASSETS	
Cash and cash equivalents	\$ 41,958
	<u> </u>
LIABILITIES	
Deposits held for others	\$ 41,958
	<u> </u>

The accompanying notes are an integral part of this statement.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District of the City of Muskegon Heights (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *1999 Building Capital Projects Fund* accounts for the use of the proceeds from the 1999 School Building and Site Bonds. The Bonds were approved for issuance on March 9, 1999 and may be used for school building and site purposes.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30, 2007 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0
Debt service funds - Homestead and non-homestead	12.5

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Land improvements	10-15 years
Buildings and improvements	10-40 years
Buses and other vehicles	10 years
Furniture and other equipment	5-10 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—PRIOR PERIOD ADJUSTMENT

An error reported in the School District's previously issued financial statements was corrected this year. The June 30, 2006 governmental activities net assets has been restated to correct this error.

The restatement of net assets as of June 30, 2006 is as follows:

Net assets at June 30, 2006	\$ 1,711,630
Increase in long-term obligations due to error in computing interest expense on bond refunding	<u>(298,104)</u>
Net assets at July 1, 2006, as restated	<u>\$ 1,413,526</u>

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The School District does not consider these amendments to be significant.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations in adult and continuing education, instructional staff, and business functions by \$48,895, \$253,189, and \$40,334, respectively.

Fund Deficits

As of June 30, 2007, the General Fund had a deficit of \$771,379, the Athletic Fund had a deficit of \$69,359 and the Food Service Fund had a deficit of \$286,251. The deficits will be eliminated through future operations, which may include reduction of operating expenditures and interfund transfers.

School Bond Construction Compliance

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 1999 Building Capital Projects Fund from the inception of the fund through June 30, 2007.

	1999 Building Capital Projects Fund
Revenue and bond proceeds	\$ 29,591,447
Expenditures	28,644,170

NOTE D—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	\$ <u>2,384,220</u>	21	A1	<u>100%</u>

The School District voluntarily invests certain excess funds in external investment pools (Pools). The Pools are external investment pools of "qualified" investments for Michigan school districts. The Pools are not regulated nor are they registered with the SEC. The fair value of the School District's investments is the same as the value of the Pool shares.

Interest rate risk. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—DEPOSITS AND INVESTMENTS—Continued

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2007, the School District's bank balance of \$188,669 was not exposed to custodial credit risk because it was fully insured.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 1,475,734	\$ -	\$ -	\$ 1,475,734
Construction in progress	167,187	172,241	167,187	172,241
Total capital assets, not being depreciated	1,642,921	172,241	167,187	1,647,975
Capital assets, being depreciated:				
Land improvements	570,003	25,572	-	595,575
Buildings and improvements	33,536,268	253,697	-	33,789,965
Equipment	2,534,037	44,034	-	2,578,071
Vehicles	588,508	-	-	588,508
Total capital assets, being depreciated	37,228,816	323,303	-	37,552,119

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Less accumulated depreciation:				
Land improvements	\$ 402,419	\$ 16,900	\$ -	\$ 419,319
Buildings and improvements	10,135,313	783,776	-	10,919,089
Equipment	939,676	290,569	-	1,230,245
Vehicles	481,055	28,908	-	509,963
Total accumulated depreciation	<u>11,958,463</u>	<u>1,120,153</u>	<u>-</u>	<u>13,078,616</u>
Total capital assets, being depreciated, net	<u>25,270,353</u>	<u>(796,850)</u>	<u>-</u>	<u>24,473,503</u>
Capital assets, net	<u>\$ 26,913,274</u>	<u>\$ (624,906)</u>	<u>\$ 167,187</u>	<u>\$ 26,121,181</u>

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Bond issuance costs	\$ 666,430	\$ -	\$ -	\$ 666,430
Less accumulated amortization	<u>174,044</u>	<u>95,463</u>	<u>-</u>	<u>269,507</u>
Bond issuance costs, net	<u>\$ 492,386</u>	<u>\$ (95,463)</u>	<u>\$ -</u>	<u>\$ 396,923</u>

Amortization

Amortization expense has been charged as unallocated amortization.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 251,854
1999 Building Capital Projects Fund	General Fund	30,538
Other governmental funds	General Fund	<u>260,163</u>
		<u>\$ 542,555</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$250,000 to the Athletics Fund to finance operations.

NOTE H—SHORT-TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>
State aid anticipation note				
2005/2006 3.50% due July 2006	\$ 2,600,000	\$ -	\$ 2,600,000	\$ -
2006/2007 4.50% due August 2007	<u>-</u>	<u>2,700,000</u>	<u>-</u>	<u>2,700,000</u>
	<u>\$ 2,600,000</u>	<u>\$ 2,700,000</u>	<u>\$ 2,600,000</u>	<u>\$ 2,700,000</u>

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE I—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from other governmental units	\$ 418,016	\$ -
State aid grant funds received prior to spending funds	<u>-</u>	<u>181,916</u>
Total deferred revenue for governmental funds	<u><u>\$ 418,016</u></u>	<u><u>\$ 181,916</u></u>

NOTE J—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, capital leases for office equipment, equipment loan payable and Education Interconnection and Consortium Financing Agreement.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
Governmental activities:					
Bonds	\$ 23,822,207	\$ -	\$ 534,875	\$ 23,287,332	\$ 585,000
Other obligations	2,784,791	119,860	319,411	2,585,240	401,100
Early retirement incentives	159,000	32,000	47,000	144,000	39,000
Compensated absences	<u>180,261</u>	<u>26,889</u>	<u>37,967</u>	<u>169,183</u>	<u>-</u>
	<u><u>\$ 26,946,259</u></u>	<u><u>\$ 178,749</u></u>	<u><u>\$ 939,253</u></u>	<u><u>\$ 26,185,755</u></u>	<u><u>\$ 1,025,100</u></u>

In the previous schedule, the addition for other obligations of \$119,860 is accrued interest on the School Bond Loan Fund.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE J—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

1999 Building General Obligation Bond partially refunded February 2006; payable in annual installments ranging from \$585,000 to \$620,000 due May 2008 to 2009; plus interest at 5.5% payable semi- annually.	\$ 1,205,000
2006 General Obligation Refunding Bond payable in annual installments ranging from \$50,000 to \$1,580,000 due May 2009 to 2029; plus interest ranging from 3.25% to 5% payable semi-annually.	22,030,000
Less issuance discount	(117,210)
Less deferred amount on refunding	(322,200)
Durant obligations payable in annual installments ranging from \$46,348 to \$285,423 including interest at 4.76% due May 2009 to 2013. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations.	<u>491,742</u>
Total bonded debt	23,287,332
Other obligations	
School Bond Loan Fund payable as soon as annual tax collections exceed annual debt service payment requirements; interest payable of \$275,499 is included at interest rates between 2.625% and 4.875%	2,430,343
Capital lease obligations payable in monthly installments of approximately \$5,880 including interest ranging from 4.04% to 9.58%; final payment due January 2010	108,298

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE J—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations—Continued

Education Interconnection and Consortium Financing Agreement payable in annual installments of \$4,391 due March 2008 to 2013	\$ 26,348
Equipment loan payable in annual installments of \$10,125 through August 2008; plus interest at 6.04%	<u>20,251</u>
Total other obligations	2,585,240
Early retirement incentives	144,000
Compensated absences	<u>169,183</u>
	<u>\$ 26,185,755</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

The annual requirements of principal and interest to amortize bonded debt, capital leases, equipment loan payable, Education Interconnection and Consortium Financing Agreement, School Bond Loan Fund, and early retirement incentives outstanding as of June 30, 2007 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 1,025,100	\$ 1,006,819	\$ 2,031,919
2009	878,838	980,771	1,859,609
2010	1,194,287	1,038,574	2,232,861
2011	1,060,257	913,800	1,974,057
2012	1,175,675	884,778	2,060,453
2013-2017	5,856,825	3,888,033	9,744,858
2018-2022	5,460,000	2,857,313	8,317,313
2023-2027	6,710,000	1,594,639	8,304,639
2028-2030	<u>3,095,000</u>	<u>210,375</u>	<u>3,305,375</u>
	<u>\$ 26,455,982</u>	<u>\$ 13,375,102</u>	<u>\$ 39,831,084</u>

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE K—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 17.74 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the years ended June 30, 2007, 2006 and 2005 were approximately \$2,004,000, \$2,159,000, and \$1,882,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE K—EMPLOYEE BENEFITS—Continued

Post-Retirement Health Care Benefits

Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2007 was approximately \$490,000 provided to 33 participants.

NOTE L—COMMITMENTS AND CONTINGENCIES

Commitments

- **Operating Leases** – The School District has lease agreements expiring at various dates through January 2012. Expense for the year ended June 30, 2007 was approximately \$41,000. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

<u>Year ending</u> <u>June 30,</u>	<u>Amount</u>
2008	\$ 36,164
2009	17,130
2010	17,130
2011	9,935
2012	<u>4,396</u>
	<u>\$ 84,755</u>

Contingencies

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Grant Programs** – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The School District has approximately \$159 thousand in questioned costs resulting from the Single Audit of its federal programs for the year ending June 30, 2007. Based upon prior experience and audit results, the School District believes it is not likely it will incur significant losses on possible grant disallowances.

School District of the City of Muskegon Heights
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE M—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 68 percent of General Fund revenues.

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NOTE N—SUBSEQUENT EVENT

On August 16, 2007, the School District received the proceeds of a \$2,700,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity on August 21, 2008 and bears interest at the rate of 4.45 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

School District of the City of Muskegon Heights
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 2,208,000	\$ 2,217,498	\$ 2,200,174	\$ (17,324)
State sources	17,733,180	16,780,122	16,374,340	(405,782)
Federal sources	5,101,418	5,289,830	5,001,747	(288,083)
Incoming transfers and other transactions	782,980	780,539	500,096	(280,443)
Total revenues	25,825,578	25,067,989	24,076,357	(991,632)
EXPENDITURES				
Instruction				
Basic programs	9,383,980	9,166,590	8,461,668	704,922
Added needs	4,736,300	4,024,010	3,627,540	396,470
Adult and continuing education	-	22,000	70,895	(48,895)
Support services				
Pupil	1,956,440	1,892,460	1,914,660	(22,200)
Instructional staff	1,815,100	2,007,790	2,260,979	(253,189)
General administration	453,060	460,090	454,352	5,738
School administration	1,073,610	1,116,860	1,109,874	6,986
Business	387,210	481,600	521,934	(40,334)
Operations and maintenance	2,675,940	2,607,910	2,590,426	17,484
Pupil transportation services	1,183,810	1,089,910	940,834	149,076
Central	642,230	719,230	714,679	4,551
Community services	986,990	1,027,150	1,003,238	23,912
Outgoing transfers and other transactions	250,000	250,000	276,252	(26,252)
Total expenditures	25,544,670	24,865,600	23,947,331	918,269
Excess (deficiency) of revenues over (under) expenditures	\$ 280,908	\$ 202,389	129,026	\$ (73,363)
Fund balance (deficit) at July 1, 2006			(900,405)	
Fund balance (deficit) at June 30, 2007			\$ (771,379)	

STATISTICAL DATA (Unaudited)

School District of the City of Muskegon Heights
PROPERTY VALUATIONS—HISTORICAL VALUATIONS
 Year ended June 30, 2007
 (Unaudited)

<u>Year</u>	<u>Homestead</u>	<u>Non-homestead¹</u>	<u>Taxable value</u>	<u>Increase (decrease) over prior year</u>
2006	\$ 40,158,182	\$ 85,464,750	\$ 125,622,932	4.2 %
2005	38,303,925	82,251,702	120,555,627	3.2
2004	37,387,015	79,448,678	116,835,693	2.2
2003	37,044,912	77,322,645	114,367,557	1.0
2002	35,714,957	77,874,707	113,589,664	2.4

Source: Muskegon County Equalization Department

¹Includes Industrial Facilities Tax roles

School District of the City of Muskegon Heights
MAJOR TAXPAYERS
Year ended June 30, 2007
(Unaudited)

Taxable values as of June 30, 2007:

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>
Consumers Energy	Utility	\$ 6,221,820
Lift Tech International	Hoists, etc	3,594,569
MAHLE	Engine components	2,603,500
Quality Tool & Stamping	Metal stamping	2,500,200
Anderson Global	Industrial patterns	2,448,500
Tridonn Construction	Construction	1,891,695
Michigan Consolidated Gas Co.	Utility	1,372,000
Versatile Fabrication	Sheet metal fabrication	967,400
American Grease Stick	Break line manufacturing	938,000
Carlton Trust	Trust	<u>735,544</u>
		<u>\$ 23,273,228</u>

The taxable values of the above taxpayers represent 18.5 percent of the School District's 2006 taxable value of \$125,622,932.

Source: Muskegon County Equalization Department

School District of the City of Muskegon Heights
SCHOOL DISTRICT TAX RATES
 Year ended June 30, 2007
 (Unaudited)

	Year ended June 30				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Voted	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	<u>12.5000</u>	<u>12.5000</u>	<u>12.5000</u>	<u>12.5000</u>	<u>12.5000</u>
TOTAL HOMESTEAD	12.5000	12.5000	12.5000	12.5000	12.5000
TOTAL NON-HOMESTEAD	30.5000	30.5000	30.5000	30.5000	30.5000

The School District's 18.0 voted mills will expire with the December 1, 2007 levy.

School District of the City of Muskegon Heights
STATE AID SUMMARY—FUNDS FROM STATE SOURCES
Year ended June 30, 2007
(Unaudited)

<u>Year ended June 30</u>	<u>Amount</u>
2007	\$ 16,374,340
2006	16,733,578
2005	17,078,742
2004	17,564,166
2003	18,947,328

School District of the City of Muskegon Heights
OPERATING TAX LEVIES AND COLLECTIONS
 Year ended June 30, 2007
 (Unaudited)

Year ended June 30	Operating tax levy	Collections to March 1 each year	Collections plus funding to June 30 each year
2007	\$ 1,466,196	\$ 1,239,368 84.53 %	\$ 1,463,076 99.79 %
2006	1,422,888	1,231,067 86.52	1,401,664 98.51
2005	1,300,076	1,011,318 77.79	1,260,106 96.93
2004	1,236,969	972,009 78.58	1,199,450 96.97
2003	1,266,332	977,148 77.16	1,218,658 96.24

School District of the City of Muskegon Heights

LABOR FORCE

Year ended June 30, 2007

(Unaudited)

A breakdown of the number of employees of the School District of the City of Muskegon Heights and their affiliation with organized groups is as follows:

<u>Employees</u>	<u>Number</u>	<u>Bargaining unit</u>	<u>Contract expiration</u>
Administrators	16	Teamsters	06/30/03
Teachers	130	MEA-NEA	08/31/06
Secretarial/Clerical	18	MEA-NEA	06/30/09
Instructional Assistants	40	AFL-CIO	10/15/07
Maintenance/Custodial	13	MEA-NEA	08/16/08
Transportation	8	MEA-NEA	08/16/08
Head Start	11	SEIU	06/30/08
Nonunion	<u>21</u>	N/A	N/A
TOTAL STAFF	<u><u>257</u></u>		

School District of the City of Muskegon Heights

PENSION FUND

Year ended June 30, 2007

(Unaudited)

For the period from October 1, 2006 through September 30, 2007, the School District will pay an amount equal to 17.74 percent of its employees' wages to the Michigan Public School Employees Retirement System (MPSERS) which is administered by the State of Michigan. The following were the applicable contribution rates required by law for the periods:

October 1, 2005—September 30, 2006	16.34 %
October 1, 2004—September 30, 2005	14.87
October 1, 2003—September 30, 2004	12.99
October 1, 2002—September 30, 2003	12.99
October 1, 2001—September 30, 2002	12.17

These contributions are required by law. Prior to the 1994/95 school year, the School District paid an amount equal to 5 percent of its employees' wages. The School District's contributions for the past five years are shown below. The School District does not have an unfunded accrued liability under MPSERS.

<u>Year ending June 30</u>	<u>Paid to pension fund</u>
2007	\$ 2,004,000
2006	2,159,000
2005	1,882,000
2004	1,729,000
2003	1,861,000

Effective January 1, 1987, members of MPSERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a "member investment plan" (MIP) which qualifies them for additional benefits. The current contribution rate of 3.9 percent became effective January 1, 1990, representing a change from the previous contribution rate of 4 percent. This option to review and adjust the contribution rate is available to MPSERS members, if necessary, every three years. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPSERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

School District of the City of Muskegon Heights
DEBT STATEMENT—DIRECT DEBT
Year ended June 30, 2007
(Unaudited)

<u>Dated</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
5/6/99	Building and Site	UTQ	5.50%	05/01/08-09	\$ 1,205,000
2/15/06	Refunding	UTQ	3.25-5%	05/01/09-29	<u>22,030,000</u>
					<u>23,235,000</u>

School District of the City of Muskegon Heights
SCHOOL BOND LOAN FUND (SBLF) PROGRAM
Year ended June 30, 2007
(Unaudited)

As of June 30, 2007, the School District has a School Bond Loan Fund principal balance of \$2,154,843 and interest obligations of \$275,500.

The Bonds are fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow, and the State of Michigan (State) shall lend to it from the School Bond Loan Fund established by the State, an amount sufficient to enable the School District to make payment. Article IX, Section 16 of the Michigan Constitution, as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report (CAFR) prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2007

Board of Education
Dana M. Bryant, Superintendent
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

In planning and performing our audit of the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the School District of the City of Muskegon Heights' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the attached deficiencies to be significant deficiencies in internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the attached deficiencies, identified as material weaknesses, constitute material weaknesses.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESSES

Recommendation 1: Account balances should be reconciled to detailed supporting documentation on a timely basis.

During our audit, we noted that general ledger account balances were not reconciled to supporting documentation on a timely basis.

Failure to reconcile general ledger account balances timely can adversely affect the accuracy of internally-prepared monthly financial statements, and, correspondingly, adversely affect the analysis and conclusions as to the School District's financial position and results of operations by management, and other users of such monthly financial statements. Additionally, this condition significantly increases the amount of year end general ledger account analysis and adjusting journal entries by School District personnel, causing significant delays in closing fiscal year financial records and issuing audited financial statements.

The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

Recommendation 2: Cash receipts and payroll transactions should be posted timely.

During our audit, we noted that cash receipts and payroll transactions are not being posted to the general ledger timely.

Timely postings would help ensure accurate records, increase the efficiency of performing bank reconciliations in a timely manner, and provide management with up-to-date information.

SIGNIFICANT DEFICIENCIES

Recommendation 3: The segregation of duties within the cash receipts and payroll functions should be improved.

During our audit, we noted that the same individual in the cash receipts function is responsible for opening the mail, endorsing checks, making bank deposits, and posting activity to the general ledger. Also, in the payroll function, the same individual is responsible for preparing payroll without management review and has the ability to prepare journal entries. The maintenance of these responsibilities by one individual provides the opportunity for errors or misappropriation of funds to go undetected.

We recommend the receipt and opening of mail and endorsement of checks be segregated from the depositing and recording in the general ledger. We also recommend that payroll be reviewed by an appropriate official.

SIGNIFICANT DEFICIENCIES—CONTINUED

Recommendation 4: All journal entries should have supporting documentation and be reviewed by an appropriate official.

During our audit, we noted that some journal entries lack supporting documentation and approval by an appropriate official. This lack of support leaves a poor audit trail and provides for difficult subsequent reference as to the nature of the journal entries.

We recommend a formal record be kept of all journal entries made and the details supporting those entries.

Recommendation 5: Long outstanding checks should be investigated and, if appropriate, be written off.

During our audit, we noted certain checks have been outstanding and maintained on bank reconciliations for periods in excess of a year. The appropriate entities should be contacted to determine if additional checks should be issued to the entities by the School District. Alternatively, School District personnel should make a determination as to whether such long outstanding items should be written off.

The investigation of items outstanding in excess of one year and the possible reissuance of new checks or writing off of such old amounts would reduce the time required to prepare account reconciliations and may identify matters which require further review.

Recommendation 6: Controls over internet access to grant programs should be reviewed.

During our audit, we noted that multiple personnel use the same user name and password to access the school lunch reporting and meal claim website. This condition provides the opportunity for personnel to access the system and view/adjust data for which they are not authorized and if fraudulent activity were to occur, it would be difficult to identify the responsible party.

The implementation of individual password/logins to track individual user activity could reduce the opportunity for unauthorized activity and provide a way to hold personnel accountable for their actions.

Recommendation 7: Cash receipts should be deposited timely.

During our audit, we noted several receipts that were not deposited in a timely manner.

The timely deposit of receipts will reduce the possibility of cash receipts being misplaced or misappropriated.

Recommendation 8: City payroll tax withholding should be remitted timely.

During our audit, we noted that city payroll tax withholdings were not submitted to the proper taxing authorities timely.

The timely reconciliation of withholding accounts would ensure the proper payments of amounts withheld from payroll checks.

School District of the City of Muskegon Heights

**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2007

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHERS MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 30, 2007

Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2007 and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District of the City of Muskegon Heights' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 3 - 11, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

BRICKLEY DELONG

Board of Education
November 30, 2007
Page 2

Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 3 - 4 to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the School District of the City of Muskegon Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and which are described as Findings 1 - 2 in Part B of the accompanying Schedule of Findings and Responses.

The School District of the City of Muskegon Heights' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the School District of the City of Muskegon Heights' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 30, 2007

Board of Education
School District of the City of Muskegon Heights
Muskegon Heights, Michigan

Compliance

We have audited the compliance of the School District of the City of Muskegon Heights with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The School District of the City of Muskegon Heights' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Muskegon Heights' management. Our responsibility is to express an opinion on the School District of the City of Muskegon Heights' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of the City of Muskegon Heights' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District of the City of Muskegon Heights' compliance with those requirements.

As described in Findings 1 - 2 in Part B of the accompanying Schedule of Findings and Responses, the School District of the City of Muskegon Heights did not comply with requirements regarding Allowable Costs/Cost Principles and Special Tests and Provisions, Highly Qualified Teachers and Paraprofessionals compliance requirements that are applicable to its U.S. Department of Education, Title I, Part A program. Compliance with such requirements is necessary, in our opinion, for the School District of the City of Muskegon Heights to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, the School District of the City of Muskegon Heights complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described as Findings 12 - 15 in the accompanying Schedule of Findings and Responses.

BRICKLEY DELONG

Board of Education
November 30, 2007
Page 2

Internal Control Over Compliance

The management of the School District of the City of Muskegon Heights is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Muskegon Heights' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Muskegon Heights' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in Part C in the accompanying Schedule of Findings and Responses as Finding 11 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Responses to be a material weakness.

The School District of the City of Muskegon Heights' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the School District of the City of Muskegon Heights' response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the School District of the City of Muskegon Heights as of and for the year ended June 30, 2007 and have issued our report thereon dated November 30, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year (s)	Current year	Total		
<i>U.S. Department of Education</i>									
Passed through Michigan Department of Education									
Title I	84.010								
051530 0506		\$ 268,292	\$ 55,212	\$ 55,212	\$ 268,292	\$ -	\$ 268,292	\$ -	
051550 0506		189,000	47,986	67,650	169,336	19,664	189,000	-	
061530 0506		2,081,495	340,556	551,345	1,870,706	210,789	2,081,495	-	5
061530 0607		276,540	-	205,918	-	271,633	271,633	65,715	
071530 0607		2,240,133	-	1,239,766	-	1,904,167	1,904,167	664,401	
071550 0607		75,000	-	-	-	75,000	75,000	75,000	
		5,130,460	443,754	2,119,891	2,308,334	2,481,253	4,789,587	805,116	
Title V	84.298								
050250 0506		1,246	-	46	1,200	46	1,246	-	
060250 0506		27,670	5,357	7,986	25,041	2,629	27,670	-	
060250 0607		6,096	-	-	-	6,096	6,096	6,096	
070250 0607		13,752	-	9,940	-	13,752	13,752	3,812	
		48,764	5,357	17,972	26,241	22,523	48,764	9,908	
Technology Literacy Challenge	84.318								
064290 0506		30,160	1,296	2,400	29,056	1,104	30,160	-	
064290 0607		13,830	-	4,733	-	13,483	13,483	8,750	
074290 0607		22,995	-	13,162	-	7,420	7,420	(5,742)	
		66,985	1,296	20,295	29,056	22,007	51,063	3,008	
Reading First	84.357								
062930 0506		609,119	112,736	112,736	609,119	-	609,119	-	
062930 0607		669,020	-	378,783	-	603,704	603,704	224,921	
		1,278,139	112,736	491,519	609,119	603,704	1,212,823	224,921	
Title II A	84.367								
050520 0506		19,147	233	233	19,147	-	19,147	-	
060520 0506		351,591	103,407	188,251	266,747	84,844	351,591	-	
060520 0607		29,480	-	-	-	29,480	29,480	29,480	
070520 0607		339,097	-	232,166	-	282,669	282,669	50,503	
		739,315	103,640	420,650	285,894	396,993	682,887	79,983	
Total passed through Michigan Department of Education		7,263,663	666,783	3,070,327	3,258,644	3,526,480	6,785,124	1,122,936	

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year (s)	Current year	Total		
<i>U.S. Department of Education—Continued</i>									
Passed through Muskegon Area									
Intermediate School District									
Adult Basic Education	84.002								
061130 610586		\$ 16,692	\$ 16,692	\$ 16,692	\$ 16,692	\$ -	\$ 16,692	\$ -	
071130 710587		27,433	-	27,433	-	27,433	27,433	-	
		44,125	16,692	44,125	16,692	27,433	44,125	-	
Special Education Cluster									
IDEA 101-476 Flowthrough	84.027								
060450 0506		551,579	58,996	87,634	497,655	53,924	551,579	25,286	
070450 0607		531,605	-	259,940	-	401,320	401,320	141,380	
		1,083,184	58,996	347,574	497,655	455,244	952,899	166,666	
IDEA 101-476 Preschool									
070460 0607	84.173	12,454	-	8,736	-	12,345	12,345	3,609	
Total Special Education Cluster		1,095,638	58,996	356,310	497,655	467,589	965,244	170,275	
Drug Free Schools and Communities Act									
072860 0506	84.186	31,082	-	-	-	31,082	31,082	31,082	
Total passed through Muskegon Area									
Intermediate School District		1,170,845	75,688	400,435	514,347	526,104	1,040,451	201,357	
Total U.S. Department of Education		8,434,508	742,471	3,470,762	3,772,991	4,052,584	7,825,575	1,324,293	
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education									
National School Lunch									
Entitlement Commodities	10.550	28,594	-	28,594	-	28,594	28,594	-	
Bonus Commodities		721	-	721	-	721	721	-	
		29,315	-	29,315	-	29,315	29,315	-	
061970 Breakfast									
071970 Breakfast	10.553	214,804	30,180	51,628	193,356	21,448	214,804	-	3
		192,985	-	186,425	-	192,985	192,985	6,560	3
		407,789	30,180	238,053	193,356	214,433	407,789	6,560	
061950 All Lunches									
071950 All Lunches	10.555	68,260	9,835	18,234	59,861	8,399	68,260	-	3
061960 Free and Reduced		59,238	-	57,609	-	59,238	59,238	1,629	3
071960 Free and Reduced		548,664	79,034	142,856	484,842	63,822	548,664	-	3
061980 Snack Program		472,662	-	452,692	-	472,662	472,662	19,970	3
071980 Snack Program		3,127	496	496	3,127	-	3,127	-	3
		2,617	-	2,617	-	2,617	2,617	-	3
		1,154,568	89,365	674,504	547,830	606,738	1,154,568	21,599	

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year (s)	Current year	Total		
U.S. Department of Agriculture—Continued									
Passed through Michigan Department of Education—Continued									
National School Lunch—Continued									
Child Care Food Program									
061920 CCFP Meals	10.558	\$ 11,276	\$ 3,142	\$ 3,658	\$ 10,760	\$ 516	\$ 11,276	\$ -	
071920 CCFP Meals		18,630	-	16,436	-	18,630	18,630	2,194	
062010 Child Care Cash in Lieu		518	138	138	518	-	518	-	
072010 Child Care Cash in Lieu		794	-	718	-	794	794	76	
		31,218	3,280	20,950	11,278	19,940	31,218	2,270	
Summer Food Service Program for Children									
060900 Summer Food Meals	10.559	122,053	20,230	122,053	20,230	101,823	122,053	-	3
061900 Summer Food Sponsor Admin		12,587	2,090	12,587	2,090	10,497	12,587	-	3
070900 Summer Food Meals		17,735	-	-	-	17,735	17,735	17,735	3
071900 Summer Food Sponsor Admin		1,827	-	-	-	1,827	1,827	1,827	3
		154,202	22,320	134,640	22,320	131,882	154,202	19,562	
Total passed through Michigan Department of Education and U.S. Department of Agriculture		1,777,092	145,145	1,097,462	774,784	1,002,308	1,777,092	49,991	
U.S. Department of Labor									
Passed through County of Muskegon, Michigan									
Wagner Peyser Labor Exchange									
402222/WP-05	17.207	37,059	9,829	9,829	37,059	-	37,059	-	
402222/WP-06		26,280	-	14,922	-	26,280	26,280	11,358	
		63,339	9,829	24,751	37,059	26,280	63,339	11,358	
Workforce Investment Act Cluster									
WIA Adult Program									
402222/WIA-05	17.258	15,081	5,392	5,392	15,081	-	15,081	-	
402222/WIA-06		38,249	-	10,511	-	38,249	38,249	27,738	
402222/WP-06		2,026	-	1,491	-	2,026	2,026	535	
		55,356	5,392	17,394	15,081	40,275	55,356	28,273	
WIA Youth Program									
402222/WIA-05	17.259	51,459	85	22,941	3,983	47,476	51,459	24,620	
402222/WP-06		2,200	-	1,619	-	2,200	2,200	581	
		53,659	85	24,560	3,983	49,676	53,659	25,201	
WIA Dislocated Workers									
WIA-06	17.260	68,827	-	27,524	-	68,827	68,827	41,303	
402222/WP-06		3,662	-	2,695	-	3,662	3,662	967	
		72,489	-	30,219	-	72,489	72,489	42,270	
Total WIA Cluster		181,504	5,477	72,173	19,064	162,440	181,504	95,744	
Total passed through County of Muskegon, Michigan and U.S. Department of Labor		244,843	15,306	96,924	56,123	188,720	244,843	107,102	

School District of the City of Muskegon Heights
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2007

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2006	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2007	Notes
					Prior year (s)	Current year	Total		
<i>U.S. Department of Health and Human Services</i>									
Passed through County of Muskegon, Michigan									
Workfirst	93.558								
402222/WR-06		\$ 200,749	\$ 92,639	\$ 92,639	\$ 200,749	\$ -	\$ 200,749	\$ -	
402222/WR-07		408,710	-	244,581	-	408,710	408,710	164,129	
		609,459	92,639	337,220	200,749	408,710	609,459	164,129	
Passed through Muskegon Area									
Intermediate School District									
Head Start	93.600								
05CH8258/07		625,584	79,829	316,556	388,857	236,727	625,584	-	
05CH8258/08		350,037	-	178,743	-	363,581	363,581	184,838	
		975,621	79,829	495,299	388,857	600,308	989,165	184,838	
Medical Assistance Program Title XIX	93.778								
393		19,428	-	19,428	-	19,428	19,428	-	
Total passed through Muskegon Area									
Intermediate School District		995,049	79,829	514,727	388,857	619,736	1,008,593	184,838	
Total U.S. Department of Health									
and Human Services		1,604,508	172,468	851,947	589,606	1,028,446	1,618,052	348,967	
TOTAL FEDERAL ASSISTANCE		\$ 12,060,951	\$ 1,075,390	\$ 5,517,095	\$ 5,193,504	\$ 6,272,058	\$ 11,465,562	\$ 1,830,353	

The accompanying notes are an integral part of this schedule.

School District of the City of Muskegon Heights
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
3. Child Nutrition Cluster
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2007

Governmental Funds financial statements

General Fund

\$ 5,001,747

Other governmental funds (includes Food Service Fund)

1,002,307

\$ 6,004,054

Less timing difference due to GASB 33 revenue recognition issues

268,004

Expenditures per single audit report

Schedule of Expenditures of Federal Awards

\$ 6,272,058

5. The Michigan Department of Education determined Muskegon Heights Public Schools was not in compliance with certification requirements for the special education teacher noted in Fiscal 2006 Finding No. 1 for the compliance finding related to Special Tests and Provisions, Highly Qualified Teachers and Paraprofessionals. The School District was required to pay back \$29,821 to the Muskegon Area Intermediate School District. This amount was paid back September 21, 2007 with check number 068053.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the School District of the City of Muskegon Heights.
2. **Nine (9)** significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. **Two (2)** of these significant deficiencies are reported as material weaknesses.
3. **Two (2)** instances of noncompliance material to the financial statements of the School District of the City of Muskegon Heights were disclosed during the audit and are reported in Part B of this Schedule.
4. **One (1)** significant deficiency disclosed during the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Parts B and C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for the School District of the City of Muskegon Heights expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Title I, Part A	84.010
Title II, Part A	84.367
<i>U.S. Department of Agriculture</i>	
Child Nutrition Cluster	10.553, 10.555 and 10.559

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The School District of the City of Muskegon Heights was not determined to be a low-risk auditee.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

U.S. Department of Education

Fiscal 2007 Finding No. 1: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Number: 071530 0607

Award Year End: September 30, 2007

Specific Requirement: Allowable Costs/Cost Principles

Criteria: An LEA must submit a budget amendment when adding a new line item of expenditures per the Michigan Department of Education School Auditing Manual.

Condition: We noted one instance where there was a new line item not in the approved budget. And, there was one instance where a line item exceeded the budget by more than \$10,000.

Cause: The School District was not aware of this requirement.

Questioned Costs: \$101,793

Context: We reviewed functional line item expenditures compared to the approved budget and noted two instances where expenditures exceeded the approved budget. There was \$60,000 (function 226) of new line item expenditures not in the approved budget. Expenditures for Supplemental Educational Services exceeded the approved budget by \$41,793.

Effect: The expenditures may not be allowable costs for the Title I, Part A grant.

Recommendation: The School District should submit a budget amendment to the Michigan Department of Education when it exceeds the approved budget or adds a new line item of expenditures.

School District Response: During the 2006/07 fiscal year, two key business office employees resigned and were subsequently replaced. The total cost of this transition was \$60,000.

The above mentioned costs were included in the district's original approved budget, but were omitted in error during the course of the year.

Expenditures for Supplemental Educational Services exceeded the approved budget amount by \$41,793, but were still within 10 percent of the approved budgeted amount. Correspondence between the district and the State of Michigan has been established in regard to these expenditures.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE—Continued

U.S. Department of Education

Fiscal 2007 Finding No. 2: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Number: 071530 0607

Award Year End: September 30, 2007

Specific Requirement: Special Tests and Provisions, Highly Qualified Teachers and Paraprofessionals

Criteria: An LEA must ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, must be highly qualified as defined in 34 CFR section 200.56 by the end of the 2005-06 school year.

Condition: We noted one teacher who was teaching a core academic subject that did not meet the definition of a highly qualified teacher as defined in 34 CFR Section 200.56.

Cause: The School District was not aware that band is a core academic subject.

Questioned Costs: \$56,742

Context: We tested forty teachers for the 2006/2007 school year. We noted that the Middle School band teacher does not hold a valid teaching certificate. There was a similar finding in the June 30, 2006 audit.

Effect: The salaries and benefits for this employee may have to be returned to either the U.S. Department of Education or the Michigan Department of Education.

Recommendation: The School District should review the regulations on what subjects are included under Core Academic subjects and follow their established procedures regarding the hiring of highly qualified teachers.

School District Response: The district has been pursuing highly qualified candidates for this position for over a year. It is the policy of the district to hire highly qualified personnel.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 3: MATERIAL WEAKNESS—General Ledger Account Balance Reconciliations

Criteria: General ledger account balances should be reconciled to detailed supporting documentation on a timely basis.

Condition: There were several account balances that were not reconciled to supporting documentation on a timely basis.

Cause: There was turnover in business office staff that created periods of time where account balances were not reconciled timely.

Effect: Failure to reconcile general ledger account balances timely can adversely affect the accuracy of internally-prepared monthly financial statements, and, correspondingly, adversely affect the analysis and conclusions as to the School District's financial position and results of operations by management, and other users of such monthly financial statements. Additionally, this condition significantly increases the amount of year end general ledger account analysis and adjusting journal entries by School District personnel, causing significant delays in closing fiscal year financial records and issuing audited financial statements.

Recommendation: The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

School District Response: The district will reconcile its accounts on a monthly basis.

Fiscal 2007 Finding No. 4: MATERIAL WEAKNESS—Timely Posting of Transactions

Criteria: All transactions should be posted to the general ledger timely.

Condition: We noted that cash receipts and payroll transactions are not being posted to the general ledger timely.

Cause: There was turnover in business office staff that created periods of time where transactions were not posted to the general ledger timely.

Effect: Interim financial statements are not accurate or complete.

Recommendation: The School District should established internal control procedures over the timely posting of transactions to the general ledger.

School District Response: Cash entries will be posted to the general ledger within a week after cash is received and payroll transactions will be posted after reviewed.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 5: Segregation of Payroll and Cash Receipt Procedures

Criteria: Duties should be adequately segregated so as to separate incompatible duties.

Condition: Certain employees have access to both physical assets and the related accounting records or all phases of a payroll and cash receipt transactions.

Cause: The School District did not have an adequate segregation of duties for the individuals responsible for payroll and cash receipts.

Effect: Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

Recommendation: Payroll should be reviewed by an appropriate official. The receipt and opening of mail and endorsement of checks should be segregated from the depositing and recording in the general ledger.

School District Response: The district will segregate these duties and payroll will be reviewed by an official before posting to the general ledger.

Fiscal 2007 Finding No. 6: Journal Entry Procedures

Criteria: Journal entries should include all supporting documentation and be reviewed and approved by an appropriate official.

Condition: We noted that some journal entries lack supporting documentation and approval by an appropriate official.

Cause: There was turnover in business office staff and the procedure requiring adequate support and review was not communicated to the newly hired staff.

Effect: The lack of support leaves a poor audit trail and provides for difficult subsequent reference as to the nature of the journal entries. The lack of review and approval increases the possibility that misstatements due to errors and fraud could occur without being detected.

Recommendation: A formal record should be kept of all journal entries made and the details supporting those entries. The journal entries should also be reviewed and approved by an appropriate official.

School District Response: Journal entries and supporting information will be reviewed and signed by an appropriate district official before being posted to the general ledger. The district will keep these entries in a formal record.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 7: Long Outstanding Checks

Criteria: Checks outstanding for periods greater than one year should be reviewed to determine if reissuance or other disposition is appropriate.

Condition: We noted certain checks have been outstanding and maintained on bank reconciliations for periods in excess of a year.

Cause: There was turnover in business office staff and this step was overlooked.

Effect: Carrying long outstanding checks increases bank reconciliation effort and does not allow for timely follow-up on potential problems.

Recommendation: The appropriate entities should be contacted to determine if additional checks should be issued to the entities by the School District. Alternatively, School District personnel should make a determination as to whether such long outstanding items should be written off.

School District Response: Long outstanding checks will be written off or sent to the proper collection authority.

Fiscal 2007 Finding No. 8: Internet Application Controls

Criteria: Access to grant applications and reporting via the internet should be controlled by unique user names and passwords.

Condition: We noted that multiple personnel use the same user name and password to access the school lunch reporting and meal claim website.

Cause: School District staff did not feel this was a significant weakness in internal control.

Effect: This condition provides the opportunity for personnel to access the system and view/adjust data for which they are not authorized and if fraudulent activity were to occur, it would be difficult to identify the responsible party.

Recommendation: The implementation of individual password/logins to track individual user activity could reduce the opportunity for unauthorized activity and provide a way to hold personnel accountable for their actions.

School District Response: Proper controls will be put on account passwords. Only the authorized user will be able to access information through his/her username and password.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 9: Cash Receipt Deposits

Criteria: Cash receipts should be deposited timely after receipt.

Condition: We noted several receipts that were not deposited in a timely manner.

Cause: There was turnover in business office staff and deposit timeliness was not made a priority.

Effect: Holding receipts increases the possibility of cash receipts being misplaced or misappropriated.

Recommendation: All cash receipts should be deposited within a week of receipt.

School District Response: Cash receipts will be deposited in a timely manner.

Fiscal 2007 Finding No. 10: City Payroll Tax Withholding

Criteria: Payroll tax withholdings should be remitted to the taxing authority within the prescribed timelines.

Condition: We noted city withholdings were not remitted to the city monthly as required.

Cause: The School District was trying to work out a netting of amounts owed to the city with amounts the city owed the School District, but the netting agreement was not reached.

Effect: Late payment of withholdings can subject the School District to penalties and interest.

Recommendation: All payroll withholdings should be remitted in accordance with prescribed timelines.

School District Response: Payroll taxes will be deposited in a timely manner.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

U.S. Department of Agriculture

Fiscal 2007 Finding No. 11: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960, 071980, 060900, 061900, 070900, 071900

Award Year Ends: September 30, 2006 and September 30, 2007

Specific Requirement: Eligibility, Reporting, and Special Tests and Provisions – Verification of Free and Reduced Price Applications

Criteria: Per OMB Circular A-133 §____.105 Definitions, internal control is a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1) Effectiveness and efficiency of operations, 2) Reliability of financial reporting, and 3) Compliance with applicable laws and regulations.

Condition: There are no internal control procedures in place requiring a review or approval of work performed under the Child Nutrition Cluster eligibility, reporting or verification functions.

Cause: Review and approval are not documented.

Questioned Costs: None

Context: Child Nutrition Cluster had compliance findings related to reporting and special tests and provisions – verification of free and reduced price applications.

Effect: The lack of a review or approval of the noted compliance areas increases the risk of a material error/misstatement going undetected in the normal course of operations.

Recommendation: Review and approval should be implemented and documented for the Child Nutrition Cluster eligibility, reporting and verification functions.

School District Response: The district's internal control for this process requires review by two individuals, a representative of the management company and a district employee. As a method to strengthen the accuracy of the report submission, the management company's director will again review and sign off on the report prior to submission.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

See Findings 1 and 2 in Part B above.

U.S. Department of Agriculture

Fiscal 2007 Finding No. 12: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960, 071980,
060900, 061900, 070900, 071900

Award Year End: September 30, 2007

Specific Requirement: Reporting

Criteria: All claims for reimbursement must be supported by accurate meal count records indicating the number of meals served by category and type per 7 CFR Section 210.7(c).

Condition: We noted that not all claims were supported by accurate meal counts by category and type taken at point of service.

Cause: Monthly summary reports are created using source documents from the point of service (POS) system and manual adjustment sheets. These summary reports are used to report the number of meals served. There are two buildings that do not use the POS system, but instead take meal counts manually. These two buildings experienced the highest error rate in reporting meals served. Also, there were errors in two months in reporting the number of meals served from the summary sheets due to keypunching errors.

Questioned Costs: (\$1,209)

Context: We selected eight buildings in a four month sample for a total of 35,820 lunches and 20,563 breakfasts served out of 267,179 lunches and 148,725 breakfast claimed for the year. We noted several errors in recording the number of meals served by category and type. In two of the months, there were keypunch errors which understated free lunch and breakfast and overstated paid lunch and breakfasts in the same amount. In total, free lunches were under reported by 286 meals, reduced lunches were overstated by 11 meals, paid lunches were overstated by 290 meals, free breakfast were understated by 470 meals, reduced breakfasts were overstated by 7 meals and paid breakfasts were overstated by 468 meals.

Effect: The claims for reimbursement filed with the Michigan Department of Education had both over and understatements of meals served by category and type.

Recommendation: The School District should utilize the POS system for all buildings. Monthly summary reports and monthly claims for reimbursement should be reviewed for accuracy.

School District Response: The school district and management company will pursue the opportunity to purchase a new POS computer system and software updates for all buildings. All edit checks and rosters will be reviewed and signed before claims are submitted.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE—Continued

U.S. Department of Agriculture

Fiscal 2007 Finding No. 13: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960, 071980

Award Year End: September 30, 2007

Specific Requirement: Reporting

Criteria: The OMB Circular A-133 states that the SEA may require the SFA to report information the SEA needs to prepare the required financial reports of the SEA and that those reports of the SFA should be tested during the audit of the SFA.

Condition: We noted that the annual report submitted to the Michigan Department of Education was not supported by source documents and contained large variances from audited results of operations.

Cause: The annual report is completed (due July 31) before the School District's records are complete. Also, the information used to complete the report was not retained to verify the information reported.

Questioned Costs: Not determinable

Context: The annual report submitted to the Michigan Department of Education reported a net fund balance increase of more than \$100,000 greater than actual results.

Effect: This information is used by the Michigan Department of Education in calculating the amount of state match funds the School District receives. By reporting incorrect information the School District is either receiving too much or too little of the state match funds disbursed by the SEA.

Recommendation: The School District should update its accounting records in a timely manner to facilitate a more accurate report. The School District should also maintain its source documents to support the amounts they report.

School District Response: Financial information required for the annual report will be updated monthly and distributed to the proper school district managers, allowing for more accurate year-end reports.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE—Continued

U.S. Department of Agriculture

Fiscal 2007 Finding No. 14: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960, 071980

Award Year End: September 30, 2007

Specific Requirement: Special tests and Provisions, Verification of Free and Reduced Price Applications

Criteria: In accordance with the OMB Circular A-133, the SFA must perform verification in accordance with instructions provided by the State agency.

Condition: The School District was required to perform basic sampling for verification. Under basic sampling, applications are to be selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced meals. No such applications were selected for verification.

Cause: The School District utilized a computer software program to make the selections and none were selected.

Questioned Costs: Not determinable

Context: There were ten applications selected for verification; none were selected from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced meals.

Effect: The results of verification may have had a different result had the sample included applications from households claiming income within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced meals.

Recommendation: The School District should review their verification procedures and provide additional training for staff that performs verification.

School District Response: Additional training will be provided by the management company and the POS software company so interpretation of the report will be done correctly. The report will be reviewed by an approved district employee and signed by the food service director in order to verify information prior to report submission.

School District of the City of Muskegon Heights
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2007

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE—Continued

U.S. Department of Agriculture

Fiscal 2007 Finding No. 15: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 061970, 071970, 061950, 061960, 071950, 071960, 071980

Award Year End: September 30, 2007

Specific Requirement: Special tests and Provisions, Verification of Free and Reduced Price Applications

Criteria: The SFA must report their verification activity and results to their respective State agencies per the September 11, 2003 final rule entitled 'Determining Eligibility for Free and reduced Price Meals in Schools – Verification Reporting and Recordkeeping Requirements.'

Condition: We noted that the verification results reported were not accurate and the number of approved applications reported was incorrect.

Cause: The results of verification are not properly summarized nor reviewed by an appropriate person.

Questioned Costs: None

Context: As of October 31, 2006, there were 239 students approved as free eligible based on income, but the School District reported 322 and 57 students were reduced price eligible, but the School District reported 103. The number of approved applications as of October 1, 2006 based on income/household size was overstated. The results of verification by application type reported the results of eight applications, but ten applications were verified and the verified applications that reapplied were not properly reported.

Effect: The Michigan Department of Education forwards the information to the Food and Nutrition Service (FNS). This information is used by FNS to make decisions regarding the National School Lunch Program and if the information is inaccurate, it may adversely affect those decisions.

Recommendation: The School District should review their verification reporting procedures and provide additional training for staff that performs verification. The School District should also implement a procedure for reviewing the results of verification.

School District Response: Additional training will be provided by the management company and the POS software company so interpretation of the report will be done correctly. The report will be reviewed by an approved district employee and signed by the food service director in order to verify information prior to report submission.

SIGNIFICANT DEFICIENCIES

See Finding 11 in Part B above.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

November 30, 2007

Michigan Department of Education
Lansing, Michigan

The School District of the City of Muskegon Heights respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2006 dated October 27, 2006.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

U.S. Department of Education

Fiscal 2006 Finding No. 1: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Number: 061530 0506

Award Year End: September 30, 2006

Condition: We noted two teachers who were teaching core academic subjects in Title I schoolwide program schools that did not meet the definition of a highly qualified teacher as defined in 34 CFR Section 200.56.

Recommendation: The School District should follow their established procedures regarding the hiring of highly qualified teachers.

Current Status: See Fiscal 2007 Finding No. 2 for a similar finding reported for the single audit for the year ended June 30, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS

Fiscal 2006 Finding No. 2: Budgeting Policies and Procedures

Condition: The School District adopted a deficit budget, even though the State School Aid Act (Act 94) of 1979 prohibits deficit (negative equity) budgeting.

Recommendation: The School District should comply with the State School Aid Act (Act 94) of 1979.

Current Status: This recommendation was adopted in fiscal 2007. *No* similar finding was noted in the fiscal 2007 audit.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2006 Finding No. 3: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 051970, 069170, 051950, 061950, 051960, 061960,
051980, 061980, 041900 and 042900

Award Year Ends: September 30, 2005 and September 30, 2006

Condition: We noted that three applications did not have an eligibility determination indicated on them (two appeared properly recorded on building roster and one was incorrect on building roster), one eligibility determination was incorrect, two applications had correct eligibility determinations, but did not agree to the status on the building roster used for claims/reporting, one application was missing income frequency and staff called parent, but did not document the phone call and one application could not be located.

Recommendation: The School District should review the procedures used to process paper applications and provide additional training for staff who process the paper applications.

Current Status: This recommendation was implemented during the year ended June 30, 2007. *No* similar finding was noted during the single audit for the year ended June 30, 2007.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE—Continued

U.S. Department of Agriculture

Fiscal 2006 Finding No. 4: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education
CFDA: 10.553, 10.555 and 10.559
Award Numbers: 051970, 069170, 051950, 061950, 051960, 061960,
051980, 061980, 041900 and 042900
Award Year Ends: September 30, 2005 and September 30, 2006

Condition: We noted that not all claims were supported by accurate meal counts by category and type taken at the point of service.

Recommendation: The School District should review the procedures used to count, accumulate and report meals served by category and type taken at the point of service to improve the accuracy of the claims for reimbursement.

Current Status: See Fiscal 2007 Finding No. 12 for a similar finding reported for the single audit for the year ended June 30, 2007.

U.S. Department of Agriculture

Fiscal 2006 Finding No. 5: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education
CFDA: 10.553, 10.555 and 10.559
Award Numbers: 051970, 069170, 051950, 061950, 051960, 061960,
051980, 061980, 041900 and 042900
Award Year End: September 30, 2006

Condition: We noted that the verification results reported were not accurate and the number of approved applications reported was wrong.

Recommendation: The School District should review their verification reporting procedures and provide additional training for staff who perform verification.

Current Status: See Fiscal 2007 Finding No. 15 for a similar finding reported for the single audit for the year ended June 30, 2007.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

COMPLIANCE—Continued

U.S. Department of Agriculture

Fiscal 2006 Finding No. 6: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553, 10.555 and 10.559

Award Numbers: 051970, 069170, 051950, 061950, 051960, 061960,
051980, 061980, 041900 and 042900

Award Year End: September 30, 2006

Condition: We noted a) one family was sent a letter indicating a reduction in benefits from free to denied for no response, but the building rosters were not updated for all members of the family, b) one family reapplied for benefits after verification terminated their benefits and building rosters were not properly updated for all members of the family, and c) two applications that did not have all income sources verified.

Recommendation: The School District should review their verification reporting procedures and provide additional training for staff who perform verification.

Current Status: This recommendation was implemented during the year ended June 30, 2007. *No* similar finding was noted during the single audit for the year ended June 30, 2007.

U.S. Department of Education

Fiscal 2006 Finding No. 7: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 051530 0405, 051530 0506 and 061530 0506

Award Year Ends: June 30, 2005 and September 30, 2006

Condition: The School District did not provide the option to transfer to another public school by the first day of the school year. We noted letters dated September 2005 sent to parents regarding the option to transfer. The school district also held a parent information night on October 3, 2005 at which they discussed the option to transfer. The first day of school was August 29, 2005.

Recommendation: The School District should review the Michigan Department of Education's Adequate Yearly Progress Technical Assistance/Reporting Packet that includes sample notification letters for the transfer option and mail the letters prior to the first day of the school year.

Current Status: This recommendation was implemented during the year ended June 30, 2007. *No* similar finding was noted during the single audit for the year ended June 30, 2007.

Michigan Department of Education
November 30, 2007
Page 5

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

REPORTABLE CONDITIONS

There were ***no*** reportable conditions in relation to the major federal award programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Dana Bryant", with a stylized flourish at the end.

Dana M. Bryant
Superintendent

CORRECTIVE ACTION PLAN

November 30, 2007

Michigan Department of Education
Lansing, Michigan

The School District of the City of Muskegon Heights respectfully submits the following Corrective Action Plan for the year ended June 30, 2007.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2007

The findings from the Schedule of Findings and Responses for the year ended June 30, 2007 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

Fiscal 2007 Finding No. 1: U.S. Department of Education Title I, Part A – Allowable Costs/Cost Principles

Recommendation: The School District should submit a budget amendment to the Michigan Department of Education when it exceeds the approved budget or adds a new line item of expenditures.

Action Taken: During the 2006/07 fiscal year, two key business office employees resigned and were subsequently replaced. The total cost of this transition was \$60,000.

The above mentioned costs were included in the district's original approved budget, but were omitted in error during the course of the year.

Expenditures for Supplemental Educational Services exceeded the approved budget amount by \$41,793, but were still within 10% of the approved budgeted amount. Correspondence between the district and the State of Michigan has been established in regard to these expenditures.

The School District believes these are allowable costs.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

COMPLIANCE—Continued

**Fiscal 2007 Finding No. 2: U.S. Department of Education
Title I, Part A – Highly Qualified Teachers and Paraprofessionals**

Recommendation: The School District should review the regulations on what subjects are included under Core Academic subjects and follow their established procedures regarding the hiring of highly qualified teachers.

Action Taken: The district has been pursuing highly qualified candidates for this position for over a year. It is the policy of the district to hire highly qualified personnel.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 3: General Ledger Account Balance Reconciliations

Recommendation: The utilization of a monthly closing checklist and written procedures would encourage personnel to review the accuracy of month end balances through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules.

Action Taken: The district will reconcile its accounts on a monthly basis.

Fiscal 2007 Finding No. 4: Timely Posting of Transactions

Recommendation: The School District should established internal control procedures over the timely posting of transactions to the general ledger.

Action Taken: Cash entries will be posted to the general ledger within a week after cash is received and payroll transactions will be posted after reviewed.

Fiscal 2007 Finding No. 5: Segregation of Payroll and Cash Receipt Procedures

Recommendation: Payroll should be reviewed by an appropriate official. The receipt and opening of mail and endorsement of checks should be segregated from the depositing and recording in the general ledger.

Action Taken: The district will segregate these duties and payroll will be reviewed by an official before posting to the general ledger.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 6: Journal Entry Procedures

Recommendation: A formal record should be kept of all journal entries made and the details supporting those entries. The journal entries should also be reviewed and approved by an appropriate official.

Action Taken: Journal entries and supporting information will be reviewed and signed by an appropriate district official before being posted to the general ledger. The district will keep these entries in a formal record.

Fiscal 2007 Finding No. 7: Long Outstanding Checks

Recommendation: The appropriate entities should be contacted to determine if additional checks should be issued to the entities by the School District. Alternatively, School District personnel should make a determination as to whether such long outstanding items should be written off.

Action Taken: Long outstanding checks will be written off or sent to the proper collection authority.

Fiscal 2007 Finding No. 8: Internet Application Controls

Recommendation: The implementation of individual password/logins to track individual user activity could reduce the opportunity for unauthorized activity and provide a way to hold personnel accountable for their actions.

Action Taken: Proper controls will be put on account passwords. Only the authorized user will be able to access information through his/her username and password.

Fiscal 2007 Finding No. 9: Cash Receipt Deposits

Recommendation: All cash receipts should be deposited within a week of receipt.

Action Taken: Cash receipts will be deposited in a timely manner.

Fiscal 2007 Finding No. 10: City Payroll Tax Withholding

Recommendation: All payroll withholdings should be remitted in accordance with prescribed timelines..

Action Taken: Payroll taxes will be deposited in a timely manner.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES—Continued

**Fiscal 2007 Finding No. 11: U.S. Department of Agriculture
Child Nutrition Cluster – Eligibility, Reporting and Verification**

Recommendation: Review and approval should be implemented and documented for the Child Nutrition Cluster eligibility, reporting and verification functions.

Action Taken: The District's internal control for this process requires review by two individuals, a representative of the management company and a district employee. As a method to strengthen the accuracy of the report submission, the management company's director will again review and sign off on the report prior to submission.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS

COMPLIANCE

See Findings 1 and 2 in Part B above.

**Fiscal 2007 Finding No. 12: U.S. Department of Agriculture
Child Nutrition Cluster – Reporting**

Recommendation: The School District should utilize the POS system for all buildings. Monthly summary reports and monthly claims for reimbursement should be reviewed for accuracy.

Action Taken: The school district and management company will pursue the opportunity to purchase a new POS computer system and software updates for all buildings. All edit checks and rosters will be reviewed and signed before claims are submitted.

**Fiscal 2007 Finding No. 13: U.S. Department of Agriculture
Child Nutrition Cluster – Reporting**

Recommendation: The School District should update its accounting records in a timely manner to facilitate a more accurate report. The School District should also maintain its source documents to support the amounts they report.

Action Taken: Financial information required for the annual report will be updated monthly and distributed to the proper school district managers, allowing for more accurate year-end reports.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS—Continued

COMPLIANCE—Continued

**Fiscal 2007 Finding No. 14: U.S. Department of Agriculture
Child Nutrition Cluster – Verification of Free and Reduced Price
Applications**

Recommendation: The School District should review their verification procedures and provide additional training for staff that performs verification.

Action Taken: Additional training will be provided by the management company and the POS software company so interpretation of the report will be done correctly. The report will be reviewed by an approved district employee and signed by the food service director in order to verify information prior to report submission.

**Fiscal 2007 Finding No. 15: U.S. Department of Agriculture
Child Nutrition Cluster – Verification of Free and Reduced Price
Applications**

Recommendation: The School District should review their verification reporting procedures and provide additional training for staff that performs verification. The School District should also implement a procedure for reviewing the results of verification.

Action Taken: Additional training will be provided by the management company and the POS software company so interpretation of the report will be done correctly. The report will be reviewed by an approved district employee and signed by the food service director in order to verify information prior to report submission.

SIGNIFICANT DEFICIENCIES

See Finding 11 in Part B above.

If the Michigan Department of Education has questions regarding this plan, please call Dana M. Bryant at (231) 830-3221.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dana M. Bryant', with a stylized flourish at the end.

Dana M. Bryant
Superintendent

FORM **SF-SAC**
(5-2004)U.S. DEPT. OF COMM.—Econ. and Stat. Admin.—U.S. CENSUS BUREAU
ACTING AS COLLECTING AGENT FOR
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**RETURN
TO****Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132****PART I****GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**Month Day Year
06 / 30 / 2007Fiscal Period End Dates Must
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 ☒ Single audit 2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annu I 2 ☐ Biennial 3 ☐ Other - Months**4. FEDERAL
GOVERNMENT
USE ONLY**Date received by
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)****3 8 - 6 0 0 2 9 0 9****b. Are multiple EINs covered in this report?** 1 ☐ Yes 2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c
on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number****0 4 - 7 9 8 - 1 8 0 8****e. Are multiple DUNS covered in this report?** 1 ☐ Yes 2 ☒ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f
on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name SCHOOL DISTRICT OF THE CITY OF-
MUSKEGON HEIGHTS****b. Auditee address (Number and street)****2603 LEAHY STREET**

City

MUSKEGON HEIGHTS

State

ZIP + 4 Code

MI**4 9 4 4 4 -****c. Auditee contact
Name****DANA M. BRYANT**

Title

SUPERINTENDENT**d. Auditee contact telephone****(231) 830 - 3220****e. Auditee contact FAX****(231) 830 - 3563****f. Auditee contact E-mail****g. AUDITEE CERTIFICATION STATEMENT** - This is to
certify that, to the best of my knowledge and belief, the auditee
has: (1) engaged an auditor to perform an audit in accordance
with the provisions of OMB Circular A-133 for the period
described in Part I, Items 1 and 3; (2) the auditor has completed
such audit and presented a signed audit report which states that
the audit was conducted in accordance with the provisions of the
Circular; and, (3) the information included in **Parts I, II, and III**
of this data collection form is accurate and complete. I declare
that the foregoing is true and correct.

Signature of certifying official

Date

Month

Day

Year

11 / 29 / 07

Printed Name of certifying official

DANA M. BRYANT

Printed Title of certifying official

SUPERINTENDENT**7. AUDITOR INFORMATION (To be completed by auditor)****a. Auditor name****BRICKLEY DELONG, PLC****b. Auditor address (Number and street)****316 MORRIS AVENUE, SUITE 500**

City

MUSKEGON

State

ZIP + 4 Code

MI**4 9 4 4 0 -****c. Auditor contact
Name****TIMOTHY D. ARTER**

Title

PARTNER**d. Auditor contact telephone****(231) 726 - 5800****e. Auditor contact FAX****(231) 722 - 0260****f. Auditor contact E-mail****TARTER@BRICKLEYDELONG.COM****9. AUDITOR STATEMENT** - The data elements and
information included in this form are limited to those prescribed
by OMB Circular A-133. The information included in Parts II and
III of the form, except for Part III, Items 7, 8, and 9a-9f, was
transferred from the auditor's report(s) for the period described
in Part I, Items 1 and 3, and **is not a substitute** for such
reports. The auditor has not performed any auditing procedures
since the date of the auditor's report(s). A copy of the reporting
package required by OMB Circular A-133, which includes the
complete auditor's report(s), is available in its entirety from the
auditee at the address provided in Part I of this form. As
required by OMB Circular A-133, the information in **Parts II**
and **III** of this form was entered in this form by the auditor
based on information included in the reporting package. The
auditor has not performed any additional auditing procedures in
connection with the completion of this form.

Signature of auditor

Date

Month

Day

Year

11 / 29 / 07**for Brickley DeLong, PLC**

PART II**FINANCIAL STATEMENTS (To be completed by auditor)****1. Type of audit report**

Mark either: 1 ☒ Unqualified opinion **OR**
any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

2. Is a "going concern" explanatory paragraph included in the audit report?1 ☐ Yes 2 ☒ No**3. Is a reportable condition disclosed?**1 ☒ Yes 2 ☐ No – *SKIP to Item 5***4. Is any reportable condition reported as a material weakness?**1 ☒ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☒ Yes 2 ☐ No**PART III****FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))**

\$ 300,000

3. Did the auditee qualify as a low-risk auditee? (§ .530)1 ☐ Yes 2 ☒ No**4. Is a reportable condition disclosed for any major program? (§ .510(a)(1))**1 ☒ Yes 2 ☐ No – *SKIP to Item 6***5. Is any reportable condition reported as a material weakness? (§ .510(a)(1))**1 ☐ Yes 2 ☒ No**6. Are any known questioned costs reported? (§ .510(a)(3) or (4))**1 ☒ Yes 2 ☐ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation82 ☐ United States Information Agency12 ☐ Defense15 ☐ Interior07 ☐ Office of National Drug Control Policy64 ☐ Veterans Affairs84 ☐ Education16 ☐ Justice09 ☐ Legal Services Corporation00 ☒ None81 ☐ Energy17 ☐ Labor59 ☐ Small Business Administration☐ Other – Specify:66 ☐ Environmental Protection Agency

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages

1

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program (g)	If yes, type of audit report ³ (h)		
8 4	.010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 2,481,253 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	BN	1,2
8 4	.298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V	\$ 22,523 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TECHNOLOGY LITERACY CHALLENGE	\$ 22,007 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.357	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	READING FIRST	\$ 603,704 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE IIA	\$ 396,993 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4	.002	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ADULT BASIC EDUCATION	\$ 27,433 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IDEA 101-476 FLOWTHROUGH	\$ 455,244 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.173	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IDEA 101-476 PRESCHOOL	\$ 12,345 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	.186	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRUG FREE SCHOOLS AND COMMUNITIES ACT	\$ 31,082 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	.550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	COMMODITIES	\$ 29,315 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED →				\$ 6,272,058 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
 N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	Research and development ³ (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program (g)	If yes, type of audit report ³ (h)		
1 0 .553		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	BREAKFAST	\$ 214,433 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	ELN	11,12,13,14,15
1 0 .555		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	LUNCHES	\$ 606,738 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	ELN	11,12,13,14,15
1 0 .558		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILDCARE FOOD PROGRAM	\$ 19,940 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0 .559		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	\$ 131,882 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	ELN	11,12,13,14,15
1 7 .207		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WAGNER PEYSER LABOR EXCHANGE	\$ 26,280 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 7 .258		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA ADULT PROGRAM	\$ 40,275 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 7 .259		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA YOUTH PROGRAM	\$ 49,676 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 7 .260		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WIA DISLOCATED WORKERS	\$ 72,489 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3 .558		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	WORKFIRST	\$ 408,710 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
9 3 .600		1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	HEADSTART	\$ 600,308 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
TOTAL FEDERAL AWARDS EXPENDED →				\$ 6,272,058 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

¹ See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.² Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)³ If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.⁴ Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed
 B. Allowable costs/cost principles
 C. Cash management
 D. Davis - Bacon Act
⁵ N/A for NONE

E. Eligibility
 F. Equipment and real property management
 G. Matching, level of effort, earmarking
 H. Period of availability of Federal funds

I. Procurement and suspension and debarment
 J. Program income
 K. Real property acquisition and relocation assistance

L. Reporting
 M. Subrecipient monitoring
 N. Special tests and provisions
 O. None
 P. Other

PART III FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS						
Federal Agency Prefix ¹ (a)	CFDA Number Extension ² (b)	Research and development ³ (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		If yes, type of audit report ³ (h)	Type(s) of compliance requirement(s) ⁴ (a)	Audit finding reference number(s) ⁵ (b)
						Major program (g)	Major program (g)			
9 3	.778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MEDICAL ASSISTANCE PROGRAM TITLE XIX	\$ 19,428.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
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		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
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		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
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		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$.00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
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PART I

Item 5 Continuation Sheet

c. List the multiple Employer Identification Numbers (EINs) covered in this report.

f. List the multiple DUNS covered in the report.

[illegible]

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.